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Cold War Problem - Economic Penetration

New Soviet Policy Tool

Peaceful competition with the West, particularly Soviet trade and development aid to underdeveloped countries, is a reflection of the more subtle policies of Khrushchev as compared to Stalin.

The goals of international communism remain unchanged. There has been no slackening of subversive activity or of military research and development on advanced weapons systems. Soviet leadership, however, presents a peaceful face to the world -- Khrushchev's remark, "to the slogan which says 'let us arm' we reply with the slogan 'let us trade'."

Increases in trade have been spectacular. Since 1954, Soviet trade with underdeveloped countries is up 500 per cent; total Soviet trade with the West is up 100 per cent.

Internal Organization

We revamped our internal organization about three years ago to provide the necessary intelligence support to government policy-makers. It was already clear that the USSR and other members of the Bloc had embarked on a long-run program of economic penetration. Primarily, this meant a cut in the number of personnel concerned with U.S. security export controls and related economic defense intelligence, and a beefing up of our trade branch.

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The pattern of coordinated reporting is now well established. Since February 1956, a working group under the Economic Intelligence Committee has turned out a detailed report every two weeks. This working group is composed of representatives of the Department of State, CIA, the International Cooperation Administration, the Military Services, and the Departments of Treasury, Commerce and Agriculture. Additionally, there is an analytical summary every six months, and a special quarterly report to the President's Council on Foreign Economic Policy.

This organizational arrangement provides a mechanism for combining the political, military and economic facets of Soviet penetration activities. Although there is no rigid division of labor between agencies, there are obvious areas of primacy of interest. The Department of State, for example, bears the primary responsibility for political analysis, while the Department of Defense prepares all estimates on illicit trading of Bloc arms.

On a broader basis, an annual National Intelligence Estimate is produced which covers not only the size, impact and intensity of Bloc penetration activities, but also relates this offensive to the capabilities, motivations and internal policies of the Soviets.

Soviet Capabilities for Trade and Aid

We have concluded that the Soviets possess a far greater economic potential for trade and development aid than they have utilized so far.

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With respect to trade, total exports of the USSR in 1957 were about \$4 billions, or $2\frac{1}{2}$ per cent of gross national product. This compares with \$18 billions for the U.S., or $4\frac{1}{2}$ per cent of GNP. The Soviet Union, then, is not a "trading nation" in the Western sense. Most USSR trade is still with the Bloc; about 25 per cent is with the Free World. Furthermore, 70 per cent of Soviet Free World exports in 1957 went to developed nations, particularly to Western Europe, rather than to underdeveloped countries.

The credit and grant program to underdeveloped areas has totalled only about \$2 billions since 1954 for all Bloc countries. The USSR itself has extended about \$1.2 billions. The present Soviet credit program to underdeveloped areas would have to be increased four times over present levels to reach one per cent of present industrial production in the USSR. If credits to the European Satellites are added to the Soviet bill, the annual outflow has still been only about \$1 billion over the past two years. This is between two and three per cent of estimated Soviet military expenditures.

The limitation so far seems primarily to have been the willingness of Free World countries to accept Soviet offers. This has been true in the case of Turkey and Iran. In Africa, offers to the Sudan, Morocco, Tunisia, and Libya have been largely unaccepted, despite internal pressures for economic development and a growing need

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for foreign assistance to carry out such programs.

Soviet Motivations

Why are the Soviets pushing for increased trade with the Free World and pursuing a development aid program in the Middle East, Asia and Africa?

First, trade with the industrial west appears to be motivated primarily by economic considerations. This is implicit in Khrushchev's recent frank admission that through an expansion of imports from the West, "The Soviet Union could be given the opportunity of quicker fulfillment of its program for the construction of new chemical enterprises without wasting time on creation of plans and mastering of the production of new types of equipment." Thus, while the USSR could manage without Western machinery, the advanced technology embodied in such equipment would accelerate the modernization of backward Soviet industries. This new Soviet move is fully consistent with the traditional Soviet practice of tapping the technological resources of the West to facilitate its own economic growth.

However, in the drive in underdeveloped areas, the motivation appears to be largely political. As demonstrated in Egypt, Syria, and Indonesia, Bloc supply of military and economic aid has given certain countries a capability to defy the West and to undertake courses of action that would not otherwise have been possible for them. Quick delivery of arms to Egypt, Syria, and Indonesia has reinforced the impression that only the Bloc supports their nationalist ambitions. The basic aspiration of many of the underdeveloped

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countries to remain neutral and to play off East and West has been aided by the Bloc program, since it offers tangible evidence that there is an alternative group of countries with whom they can have a wide range of economic relations on attractive terms. Specifically, it has already strengthened the bargaining positions of certain of these countries in their relations with the West, whether in economic assistance as in Iceland or for more military aid, as in Indonesia. The economic offensive has not as yet made any of these countries subservient to the USSR, but it has contributed to making some of them more responsive to the influence of the Communists and less responsive to that of the West. This could have an important strategic impact through the cancellation of Western military base rights in the Middle East and Africa.

While difficult to measure, there has been a major psychological impact in the underdeveloped countries. Military aid and prestige projects have had the greatest impact. The economic drive, in concert with its industrial and scientific accomplishments, has enhanced Bloc prestige by giving substance to its claims that it is devoted to peace, that it is overtaking the West, and that it represents the wave of the future.

The economic offensive has also provided the Soviet Union with assets which may in time be useful in some areas as part of its overall effort to move countries beyond neutralism toward closer alignment with the USSR and the Bloc. The increased size diplomatic

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missions, as in their embassy in Montevideo and Djakarta makes it easier to spread the Communist faith. Present trade and aid programs provide future levers of influence.

The economic offensive has affected the fortunes of local Communists differently in different countries. In a number of countries, the economic drive has aided their cause by increasing Communist respectability, lessening apprehensions concerning Soviet objectives, and providing additional instruments both for propagating Communist ideas and increasing subversive potential. Communist influence has also been abetted by the influx of Bloc technicians and by a greater flow of local trainees to Bloc countries for instruction.

The USSR, as the leading country in the Bloc, and Communist China, as a potential contender for supremacy within the Bloc, have greater stakes than the European Satellites in the political cold war. China has the special incentive of gaining greater recognition on the world scene, and is adapting its foreign trade to its political aspirations. A recent incident makes this clear. After negotiating an exchange agreement with industrialists in Japan amounting to nearly \$200 million, China suddenly placed an embargo on all trade with Japan, a transparent move intended to force the Kishi government in Japan to extend a greater degree of recognition to China. The rice-rubber agreement with Ceylon under which China paid premiums for rubber totaling more than \$50 million over a five year period was also motivated by obvious political aspirations, in this instance

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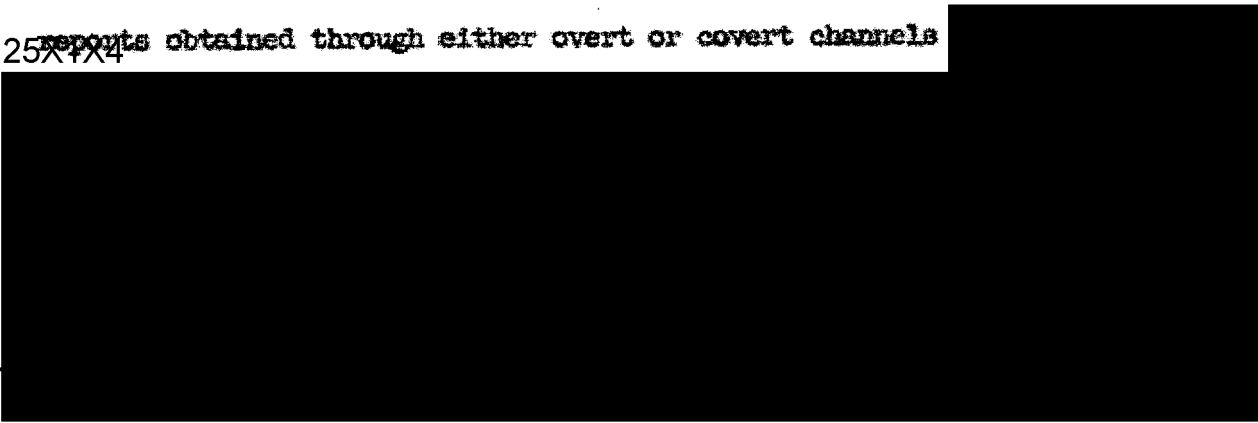
a desire to break Western trade controls.

Sources of Information on Bloc Economic Aid

Even without attempting to distinguish which part of the Bloc's economic penetration activities in underdeveloped countries is motivated by political ends, however, we have encountered rather formidable difficulties in estimating the magnitude of Bloc economic assistance to underdeveloped countries. Considerable information is usually available from open sources regarding the amounts of economic assistance which Bloc countries promise to deliver to Free World countries. Soviet agreements in particular are widely publicized, especially when large lines of credit are extended. Surely by now, a large portion of the population of the Free World must know that Afghanistan has received a \$100 million credit and Egypt a \$175 million credit from the USSR. More important for our purposes, however, the actual texts of many of the large agreements have been officially released.

But even when no value figures are announced, sufficient information is usually available through reports prepared by our attaches so that we can estimate the approximate total cost and the foreign exchange component of an economic assistance agreement. Also, 25X1X4

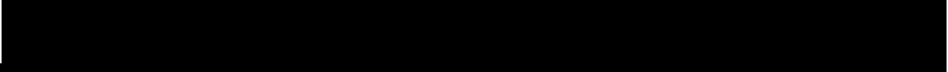
25X1X4 reports obtained through either overt or covert channels



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We are confident that our estimates of the value of economic assistance promised by the Bloc to underdeveloped countries is fairly accurate. We believe that our estimate of the total is within 5 per cent of the correct figure and that our estimates for individual countries are no more than 10 per cent in error.

The confidence that we have in our estimates of Bloc performance on assistance agreements is considerably less than this. So far, however, we have published estimates of only the minimum amount of assistance actually provided. Such an estimate is of some value, but it provides inadequate answers to several pressing questions. In particular, it does not enable us to determine the amount of indebtedness or the rate of loan amortization of a country receiving credits from the Bloc.

The major cause of the difficulty in assessing the implementation of Bloc assistance agreements is the lack of information. Debt statements and ministerial reports of recipient countries occasionally are helpful. It is exceptional for officials in underdeveloped countries ~~to be candid~~ in discussions of Soviet projects with U.S. attaches. 

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reports are also our most valuable source on the numbers, competence, and activities of Bloc technicians assigned to aid projects.

Special Problems of Bloc Arms Deals

Estimations of the value of military assistance involve considerably greater difficulties than estimates of economic assistance.

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The publicity attending the signature of an economic assistance agreement is notably absent from the negotiation of military agreements. For the most part estimates must be based on data assembled

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on

the quantity of specific types of equipment shipped, delivered, or observed. When Bloc prices of specific military items are available we use them to convert our estimates of physical units to value terms. In some instances, we have had to use U.S. prices for similar items in order to arrive at an estimate for total military assistance. Consequently, these estimates may be considerably in error. We believe that our estimates in terms of physical units are reasonably accurate, but we are aware that our estimates in terms of value may be in error by 25 per cent or more.

The most significant consequence of having questionable value estimates is that we cannot determine with precision the financial indebtedness to the Bloc of those countries receiving Bloc military assistance. There would be much intelligence significance, for example, in a reliable determination of the amount of cotton Egypt is shipping each year in repayment for the arms it has received from the Bloc. The difficulties involved in determining the indebtedness, especially in the case of Egypt, are compounded by the fact that some of the arms delivered have been obsolete, some have been sold at a discount, and some apparently have been given without charge. Moreover, some of the Bloc arms shipped to Egypt and Syria have been sent on to be used in other areas. Although we believe that the

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amount involved is small, we are not certain who ultimately will pay for the goods.

Sources of Data on Trade

Collection of trade data is considerably simplified by the fact that most Free World countries issue periodic reports on the value and pattern of their foreign commerce. We do not have to depend solely on Communist orbit sources for data on Bloc trade with Free World countries. Statements issued by Bloc countries, as well as [REDACTED] provide a means of cross-checking sources. When there is a difference between an estimate we have made on the basis of official Free World compilations and a claim made by a Bloc country, we do not automatically assume that the Communists are lying.

Our early estimate of Soviet shipments of machinery and transport equipment to underdeveloped countries in 1956, for example, was approximately 20 per cent the amount claimed by the USSR. The discrepancy between the Soviet figure and our early estimate, we ultimately concluded, was probably a matter of item classification. Underdeveloped countries often have untidy or incorrect customs procedures. Even when a standard classification system is used, customs officials are frequently lax in establishing proper criteria to be used by their operating personnel. Indian practices are particularly annoying in this respect. In their official reports of commodity imports as much as two-thirds of total imports

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from the USSR have been listed in the "all other," an unspecified category. Since among the underdeveloped countries India is a major customer of the Bloc, the errors in India's commodity reporting may have considerable impact on our estimates of total Bloc trade.

Other underdeveloped countries have similar bad habits. Most of them publish trade data in a very leisurely fashion. None is up to date in releasing statistics on commodities. No country includes in its reports shipments of military items. Finally, countries which have multiple exchange rates, such as Egypt and Argentina, cause particular difficulties when we attempt to evaluate their trade in terms of dollars.

Strategic Trade Controls

The other side of the cold war coin is the strategic trade control program. We in CIA play a major role in providing the inter-agency committee structure of the U.S. Government with intelligence support in the development and enforcement of international and U.S. security export controls against the Sino-Soviet Bloc. This intelligence support consists primarily of estimating the significance of certain Free World commodities, technology, and services to the war potential of the Bloc. U.S. unilateral controls, as you are aware, are broader than the multilateral controls.

There are two major interagency committees involved in the control of strategic exports. One committee deals with problems concerning multilateral export controls and their enforcement, and the other committee handles problems relating to unilateral

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export controls and their enforcement. The CIA participates in an advisory capacity at each level of these committees up through the National Security Council.

The Soviet leadership repeatedly has inveighed against Western export restrictions for their alleged inhibiting effects both on the level of trade and on the improvement of political relations between the Bloc and the West.* Soviet claims that export restrictions, particularly those of the U.S., have caused the low level of trade over-simplify and distort the picture. Despite controls, there has remained a wide area free of restrictions in which the Soviet Union could trade -- provided it had the will to do so. Exports of European COCOM countries to the USSR have increased consistently since 1950, with the single exception of 1953 when they declined by about 10 per cent below the 1952 level. By 1957 they were 4 times the 1950 level -- the year controls were instituted. Obviously, COCOM controls per se have not been a serious damper on Soviet imports when the USSR has felt it politically expedient or economically advantageous to import from the West. Similarly, the fifteen fold increase in Soviet purchases from the U.S. in 1957

*Khrushchev, in the past, has emphasized that the Soviet Union's desire to expand trade with the United States was not the result of any one particular economic need but rather represented primarily political goals. In an interview with five visiting US Senators on 12 September 1955, he declared, "We do not want your machines to create atomic energy or to build hydrogen or atomic bombs, we have plenty of machines ourselves that can do that. With us questions of trade are not mainly economic. They are political. We want more trade because we think that it will help to improve political relations."

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compared with 1955 has occurred despite the absence of any noticeable modification of U.S. export policy vis a vis the USSR.

Thus the low level of US-Soviet trade cannot be attributed to any one factor unless it be the political climate surrounding American-Soviet relations in general. The traditional Soviet objective of self-sufficiency for the planned economy of the USSR, the virtual boycott on purchases from the U.S. during the period 1950-55 (perhaps in the hope that the near cessation of such purchases would stimulate commercial pressure for relaxation of controls) and a deliberate Soviet design to divert purchases, where alternative markets were available, to areas where they would reap more significant political rewards, have all been a greater depressant on US-Soviet trade than either U.S. controls or the attitude of the U.S. business community.

Reports on Bloc trade are often useful in pointing to, or confirming previous estimates, of economic weakness in the Bloc. It is revealing, for example, that the USSR has exported virtually no manufactured consumer goods to the Free World. Soviet efforts to obtain machinery of the latest design in Western Europe often are the result of lagging technology in certain industries in the USSR. One can easily exaggerate the economic weakness in the Bloc, however, especially when the weaknesses are in terms of specific commodities.

Commodity studies of Bloc foreign trade will rarely reveal anything more than specific short-term soft spots in the production